

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

SUPPLEMENTAL COMPLIANCE REPORT

OF

KNOX COUNTY, INDIANA

January 1, 2015 to December 31, 2015



FILED
04/13/2017

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SCHEDULE OF OFFICIALS

| <u>Office</u> | <u>Official</u> | <u>Term</u> |
|---|-----------------------------------|--|
| County Auditor | Lisa G. Madden | 01-01-15 to 12-31-18 |
| County Treasurer | Sharon K. Duke Brenda Hall | 01-01-13 to 12-31-15 01-01-16 to 12-31-19 |
| Clerk of the Circuit Court | Terri Allen | 01-01-15 to 12-31-18 |
| County Sheriff | Michael Morris | 01-01-15 to 12-31-18 |
| County Auditor | Lisa G. Madden | 01-01-15 to 12-31-18 |
| County Recorder | Lisa Clark-Benock | 01-01-15 to 12-31-18 |
| President of the Board of County Commissioners | Larry Holscher Kellie Streeter | 01-01-15 to 12-31-16 01-01-17 to 12-31-17 |
| President of the County Council | Robert Lechner | 01-01-15 to 12-31-17 |



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
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TO: THE OFFICIALS OF KNOX COUNTY, INDIANA

This report is supplemental to our audit report of Knox County (County), for the period from January 1, 2015 to December 31, 2015. It has been provided as a separate report so that the reader may easily identify any Federal Findings and Audit Results and Comments that pertain to the County. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the County, which provides our opinions on the County's financial statement and federal program compliance. This report may be found at www.in.gov/sboa/.

The Federal Findings, identified in the above referenced audit report, are included in this report and should be viewed in conjunction with the Audit Results and Comments as described below.

As authorized under Indiana Code 5-11-1, we performed procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts. The Audit Results and Comments contained herein describe the identified reportable instances of noncompliance found as a result of these procedures. Our tests were not designed to identify all instances of noncompliance; therefore, noncompliance may exist that is unidentified.

Any Corrective Action Plan for the Federal Findings and Official Response to the Audit Results and Comments, incorporated within this report, were not verified for accuracy.

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

February 16, 2017

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COUNTY AUDITOR
KNOX COUNTY

COUNTY AUDITOR
KNOX COUNTY
FEDERAL FINDINGS

**FINDING 2015-001 - PREPARATION OF THE SCHEDULE
OF EXPENDITURES OF FEDERAL AWARDS**

Condition

The County did not have a proper system of internal control in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA). The County Auditor entered and submitted federal award information into the Indiana Gateway for Government Unit financial system, which is the source for the County's SEFA. There was no evidence of a control, such as an oversight, review, or approval process by the County to ensure federal award information entered and submitted was correct.

The following material errors were noted on the SEFA:

- Three federal programs, with expenditures of \$243,112, were omitted.
- Four federal programs' expenditures were overstated in the amount of \$15,131 and one federal program's expenditures were understated in the amount of \$9,526.
- Four programs in the amount of \$200,571 were state funded.
- There were numerous errors in program titles, project titles, and/or identifying numbers.
- Three federal programs had funding passed through to subrecipients. The amounts passed through were not indicated on the SEFA.

Audit adjustments were proposed, accepted by the County, and made to the SEFA.

Criteria

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

COUNTY AUDITOR
KNOX COUNTY
FEDERAL FINDINGS
(Continued)

2 CFR 200.508 states in part: "The auditee must: . . . (b) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with § 200.510 Financial statements. . . ."

2 CFR 200.510(b) states:

"Schedule of expenditures of Federal awards. The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with § 200.502 Basis for determining Federal awards expended. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple Federal award years, the auditee may list the amount of Federal awards expended for each Federal award year separately. At a minimum, the schedule must:

- (1) List individual Federal programs by Federal agency. For a cluster of programs, provide the cluster name, list individual Federal programs within the cluster of programs, and provide the applicable Federal agency name. For R&D, total Federal awards expended must be shown either by individual Federal award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity must be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available. For a cluster of programs also provide the total for the cluster.
- (4) Include the total amount provided to subrecipients from each Federal program.
- (5) For loan or loan guarantee programs described in § 200.502 Basis for determining Federal awards expended, paragraph (b), identify in the notes to the schedule the balances outstanding at the end of the audit period. This is in addition to including the total Federal awards expended for loan or loan guarantee programs in the schedule.
- (6) Include notes that describe the significant accounting policies used in preparing the schedule, and note whether or not the auditee elected to use the 10% de minimis cost rate as covered in § 200.414 Indirect (F&A) costs."

Cause

Management had not established a system of internal control that would have ensured proper reporting of federal award information on the SEFA.

Effect

Without a proper system of internal control in place that operated effectively, material misstatements of the SEFA remained undetected. The SEFA contained the errors identified in the *Condition*.

COUNTY AUDITOR
KNOX COUNTY
FEDERAL FINDINGS
(Continued)

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

**FINDING 2015-002 - INTERNAL CONTROLS AND COMPLIANCE
OVER FINANCIAL TRANSACTIONS AND REPORTING**

Condition

The County did not have a proper system of internal control in place to prevent, or detect and correct, errors on the Annual Financial Report (AFR). The County Auditor entered and submitted the financial information for the County into the Indiana Gateway for Government Units financial system. This information is used to compile the County's Annual Financial Report (AFR) and financial statement. There was no evidence of a control, such as an oversight, review, or approval process, to ensure the accuracy of the information entered and submitted.

The County's AFR and financial statement contained the following errors:

- Two outside departmental funds were not included that should have been.
- Eight county funds' financial information was omitted entirely.
- The After Settlement Collections fund receipts and disbursements were incorrect.

The net difference of the errors resulted in an understatement of reported receipts and disbursements of \$7,230,063 and \$7,970,251, respectively; and an understatement of the beginning and ending cash and investment balances of \$2,199,178 and \$1,458,990, respectively.

Audit adjustments were proposed, accepted by the County, and made to the County's AFR and financial statement.

Criteria

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

COUNTY AUDITOR
KNOX COUNTY
FEDERAL FINDINGS
(Continued)

An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under IC 5-14-3.8-7."

Cause

Management of the County had not established a proper system of internal control and ensured that the information reported in the AFR and financial statement was complete and accurate.

Effect

Without a proper system of internal control in place that operated effectively, material misstatements of the AFR and financial statement remained undetected. The AFR and financial statement contained the errors identified in the *Condition*.

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

**FINDING 2015-004 - SPECIAL TESTS AND PROVISIONS -
SEPARATE ACCOUNTABILITY FOR ARRA FUNDING**

Federal Agency: Department of Transportation

Federal Program: Formula Grants for Rural Areas

CFDA Number: 20.509

Federal Award Number and Year (or Other Identifying Number): 18032470

Pass-Through Entity: Indiana Department of Transportation

Condition

An effective internal control system was not in place at the County in order to ensure compliance with requirements related to the grant agreement and the Special Tests and Provisions - Separate Accountability for ARRA Funding compliance requirement. The following noncompliance was noted:

- The County did not account for ARRA expenditures separately from expenditures of non-ARRA funds on their ledger.
- The County did not notify the subrecipient at the time of subaward and disbursement of funds, the (a) Federal award number, (b) CFDA number, (c) the amount of ARRA funds.

COUNTY AUDITOR
KNOX COUNTY
FEDERAL FINDINGS
(Continued)

Context

No control procedures had been established for the audit period to ensure that ARRA - Formula Grants for Rural Areas were maintained by separate records from Formula Grants for Rural Areas.

Criteria

2 CFR 200.303 states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal awards in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

2 CFR 176.210 states in part:

"The award term described in this section shall be used by agencies to clarify recipient responsibilities regarding tracking and documenting Recovery Act expenditures:

(a) To maximize the transparency and accountability of funds authorized under the American Recovery and Reinvestment Act of 2009 (Pub. L. 111-5) (Recovery Act) as required by Congress and in accordance with 2 CFR 215.21 'Uniform Administrative Requirements for Grants and Agreements' and OMB Circular A-102 Common Rules provisions, recipients agree to maintain records that identify adequately the source and application of Recovery Act funds. . . .

(c) Recipients agree to separately identify to each subrecipient, and document at the time of subaward and at the time of disbursement of funds, the Federal award number, CFDA number, and amount of Recovery Act funds. When a recipient awards Recovery Act funds for an existing program, the information furnished to subrecipients shall distinguish the subawards of incremental Recovery Act funds from regular subawards under the existing program. . . ."

Cause

Management had not developed a system that adequately segregated ARRA and non-ARRA expenditures. There was not an adequate internal control system in place to ensure compliance with the Special Tests and Provisions - Separate Accountability for ARRA Funding requirements.

Effect

The failure to establish an effective internal control system enabled material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirement could have resulted in the loss of federal funds to the County.

COUNTY AUDITOR
KNOX COUNTY
FEDERAL FINDINGS
(Continued)

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the County's management establish controls and implement procedures to comply with the grant agreement and compliance requirement listed above.

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

KNOX COUNTY Auditor

Lisa G. Madden

COURTHOUSE

111 N. SEVENTH STREET, STE. 5

VINCENNES, IN 47591

(812) 885-2502



Corrective Action Plan

Finding 2015-001

Contact Person Responsible for Corrective Action: Lisa Madden Knox County Auditor

Contact Phone Number: 812-885-2502

Views of Responsible Official: This finding is something the Auditor and Bookkeeper will work diligently in getting SEFA reported accurately.

Description of Corrective Action Plan: Since this has been brought to our attention, the following steps have been taken to assure compliance:

2015-001 1) As Auditor, along with my Deputy Auditor will be working together to ensure accurate reporting on the SEFA.

Anticipated Completion Date: 02/16/2017

Signature

Title

Date

KNOX COUNTY Auditor

Lisa G. Madden

COURTHOUSE

111 N. SEVENTH STREET, STE. 5

VINCENNES, IN 47591

(812) 885-2502



Corrective Action Plan

Finding 2015-002

Contact Person Responsible for Corrective Action: Lisa Madden Knox County Auditor

Contact Phone Number: 812-885-2502

Views of Responsible Official: This finding is something the Auditor and Bookkeeper will work diligently in getting fund balances reported accurately on all funds.

Description of Corrective Action Plan: Since this has been brought to our attention, the following steps have been taken to assure compliance:

2015-002 1) As Auditor, along with my Deputy Auditor, will be working together to ensure accurate reporting on all funds after discussion with SBOA, we now have understanding on how to complete the correct reporting of all funds on Gateway.

Anticipated Completion Date: 02/16/2017

Signature

Title

Date



KNOX COUNTY Auditor

Lisa G. Madden

COURTHOUSE

111 N. SEVENTH STREET, STE. 5

VINCENNES, IN 47591

(812) 885-2502

Corrective Action Plan

Finding 2015-004

Contact Person Responsible for Corrective Action: Lisa Madden Knox County Auditor

Contact Phone Number: 812-885-2502

Views of Responsible Official: I concur with the finding.

Description of Corrective Action Plan: In the future federal program records of Formula Grants for Rural Areas and ARRA-Formula Grants for Rural Areas will not be combined into the same fund. The ARRA funds will be maintained separately. The County will provide all pertinent grant information to the sub-recipients.

Anticipated Completion Date: 02/16/2017

Signature

Title

Date

COUNTY AUDITOR
KNOX COUNTY
AUDIT RESULT AND COMMENT

DEFICIENCIES ON CLAIMS

Claims were observed to have no indication of approval by the Governing Board, as the disbursements were unable to be found in the Commissioner signed claims docket. Of the claims tested, 40 percent did not have Board approval.

In addition, the only copies of the claims were located in an unsecured location, and were susceptible to unsupervised public inspection. Claims were stored beneath an open stairwell with no sufficient security or supervision (locked doors, surveillance camera, etc.). Employees described instances where local taxpayers asking for information would be directed to the claims. The unsecured location and availability of the claims made them vulnerable to public alteration or removal.

Indiana Code 5-11-10-1.6 states in part:

". . . (b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services.

(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the v of payment of the claim. . . ."

"Control activities are designed to fulfill defined responsibilities and address identified risks. An evaluation of the purpose of the control activity is performed as well as an evaluation of the effect a deficiency would have on objectives. Control activities may be either automated or manual. The Green Book identifies a list of control activity categories that are meant only to illustrate the range and variety of control activities. . . ."

- Access restrictions to and accountability for resources and records. . . ."

(Uniform Internal Control Standards for Indiana Political Subdivisions, page 14)

COUNTY AUDITOR
KNOX COUNTY
EXIT CONFERENCE

The contents of this report were discussed on February 16, 2017, with Lisa G. Madden, County Auditor; Sheila Hobbs, Deputy County Auditor; Randy Crismore, County Council member; Robert Lechner, President of the County Council; and Kellie Streeter, President of the Board of County Commissioners.

CLERK OF THE CIRCUIT COURT
KNOX COUNTY

CLERK OF THE CIRCUIT COURT
KNOX COUNTY
FEDERAL FINDING

***FINDING 2015-003 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS
AND REPORTING - CLERK OF THE CIRCUIT COURT***

Condition

There was the following deficiency in the internal control system of the Clerk of the Circuit Court related to financial transactions and reporting.

Lack of Segregation of Duties: The Clerk of the Circuit Court had not separated incompatible activities related to disbursements. The First Deputy of the Clerk of the Circuit Court's office was responsible for writing checks, posting checks, making adjustments in the computer system, and maintaining the check stock. The First Deputy was also responsible for preparing the monthly reconciliation. The Clerk of the Circuit Court's signature was automatically printed onto the checks and disbursements were made with no evidence of oversight, review, or approval.

Criteria

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

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An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

Cause

Management of the County had not established a proper system of internal control over Clerk of the Circuit Court's disbursements, including segregation of duties.

Effect

The failure to establish controls could have enabled material misstatements or irregularities to remain undetected.

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

KNOX COUNTY CLERK
111 N. 7TH ST. STE 28
VINCENNES, IN 47591
812-895-4926

February 16, 2017

CORRECTIVE ACTION PLAN

FINDING 2015-003

Contact Person Responsible for Corrective Action: Terri Allen, Knox County Clerk
Contact Phone Number: 812-895-4927

We concur with the findings.

Description of Corrective Action Plan:

Terri Allen, Knox County Clerk, will review and sign a check disbursement report that shows all checks disbursed out of the Trust account for each month, she will also review and sign the Reconciliation Report. The reports will be maintained in the month end Odyssey reports book.

Anticipated Completion Date: February 16, 2017

Terri Allen

Knox County Clerk

February 16, 2017

CLERK OF THE CIRCUIT COURT
KNOX COUNTY
EXIT CONFERENCE

The contents of this report were discussed on February 16, 2017, with Terri Allen, Clerk of the Circuit Court; Tracey Kaiser, Deputy County Clerk; Lisa G. Madden, County Auditor; Sheila Hobbs, Deputy County Auditor; Randy Crismore, County Council member; Robert Lechner, President of the County Council; and Kellie Streeter, President of the Board of County Commissioners.